

**REPORT OF THE AUDIT OF THE
FORMER CLAY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER CLAY COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the former Clay County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$36,145 from the prior year, resulting in excess fees of \$67,994 as of December 31, 2005. Revenues increased by \$91,973 from the prior year and expenditures increased by \$55,828.

Debt Obligations:

Total lease agreements as of December 31, 2005, were \$1,608. Future collections of \$1,608 are needed over the next 12 months to satisfy the terms of the lease agreement.

Deposits:

The former Sheriff's deposits as of November 14, 2005 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$151,359

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl E. Sizemore, Clay County Judge/Executive
Honorable Edward Jordan, Former Clay County Sheriff
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Clay County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2008, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carl E. Sizemore, County Judge/Executive
Honorable Edward Jordan, Former Clay County Sheriff
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Clay County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 28, 2008

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

| | | | |
|----------------------------------------------------------|----|--------|---------|
| State - Kentucky Law Enforcement Foundation Program Fund | | \$ | 14,070 |
| State Fees For Services: | | | |
| Finance and Administration Cabinet | \$ | 71,743 | |
| Sheriff Security Service | | 18,522 | |
| Fugitive Return | | 3,817 | |
| Other | | 5,256 | 99,338 |
| | | | |
| Circuit Court Clerk: | | | |
| Fines and Fees Collected | | 3,256 | |
| Court Ordered Payments | | 2,048 | 5,304 |
| | | | |
| Fiscal Court | | | 106,165 |
| | | | |
| County Clerk - Delinquent Taxes | | | 3,967 |
| | | | |
| Commission On Taxes Collected | | | 132,882 |
| | | | |
| Fees Collected For Services: | | | |
| Auto Inspections | | 7,319 | |
| Accident and Police Reports | | 154 | |
| Arrest Fees | | 4,920 | |
| Serving Papers | | 20,370 | |
| Carrying Concealed Deadly Weapon Permits | | 10,253 | 43,016 |
| | | | |
| Other: | | | |
| Penalties on Taxes Collected | | 27,628 | |
| Advertising Fees | | 3,959 | |
| Transporting Patients | | 6,120 | |
| Miscellaneous | | 2,688 | 40,395 |
| | | | |
| Interest Earned | | | 803 |
| | | | |
| Total Revenues | | | 445,940 |

The accompanying notes are an integral part of this financial statement

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

| | | |
|--------------------------------------------------|----|---------|
| Personnel Services- | | |
| Deputies' Salaries | \$ | 177,433 |
| Employee Benefits- | | |
| Employer's Share Social Security | | 18,349 |
| Contracted Services- | | |
| Advertising | \$ | 1,013 |
| Accounting Services | | 7,200 |
| Computer Services | | 4,307 |
| Contract Labor | | 2,400 |
| | | <hr/> |
| Materials and Supplies- | | |
| Office Materials and Supplies | | 16,612 |
| Uniforms | | 10,259 |
| | | <hr/> |
| Auto Expense- | | |
| Gasoline | | 30,958 |
| Vehicle Maintenance and Repairs | | 12,535 |
| | | <hr/> |
| Other Charges- | | |
| Bond | | 4,773 |
| Carrying Concealed Deadly Weapon Permits | | 6,975 |
| Dues | | 149 |
| Evidence | | 570 |
| Postage | | 1,265 |
| Transport Expenses | | 688 |
| Miscellaneous | | 8,643 |
| | | <hr/> |
| Equipment Lease and Maintenance | | 1,956 |
| | | <hr/> |
| Total Expenditures | | 306,085 |
| | | <hr/> |
| Net Revenues | | 139,855 |
| Less: Statutory Maximum | | 71,861 |
| | | <hr/> |
| Excess Fees Due County for 2005 | | 67,994 |
| Less: Excess Fees Payment on December 31, 2005 | | 58,932 |
| | | <hr/> |
| Balance Due Fiscal Court at Completion of Audit* | \$ | 9,062 |
| | | <hr/> |

*Note - The former Sheriff presented a check to the County Treasurer for the balance due the Fiscal Court on September 12, 2006.

The accompanying notes are an integral part of this financial statement

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2005
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Clay County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Clay County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). On December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 14, 2005, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$151,359

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. State Forfeiture Account

The former Clay County Sheriff maintained an official bank account for monies obtained from seizures and sale of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the former Sheriff's office. The beginning balance as of January 1, 2005 was \$29,249 with receipts of \$11,895 and expenditures of \$27,403. The balance of the drug forfeiture account as of December 31, 2005 was \$13,741.

Note 5. Tax Escrow Account

The former Clay County Sheriff maintained a tax escrow account that was used to deposit unrefundable duplicate payments and unexplained receipts. The beginning balance as of January 1, 2005 was \$5,186. Receipts for the calendar year were \$904 and disbursements were \$5,237. The ending balance as of December 31, 2005 was \$853. According to KRS 393.090, property is presumed abandoned after three years, after which time the funds should be turned over to the Kentucky State Treasurer in accordance with KRS 393.110. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer.

Note 6. State Grant

On November 21, 2005 the Governor's Office For Local Development awarded \$1,324 to Clay County from the Kentucky Body Armor Program. The purpose of this grant was to purchase body armor for the former Sheriff's office. The Sheriff's office also received a \$1,000 donation to supplement the grant. As of December 31, 2005, no grant funds had been expended and the balance was \$2,324. The former sheriff appears to be in compliance with the provisions of the grant.

Note 7. Equipment Lease

The Office of the former Sheriff was committed to a lease agreement with Pitney Bowes for a postage meter and scale. The agreement requires a quarterly payment of \$402 for 60 months to be completed on December 30, 2006. The total remaining balance of the agreement was \$1,608 as of December 31, 2005.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl E. Sizemore, Clay County Judge/Executive
Honorable Edward Jordan, Former Clay County Sheriff
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Clay County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated April 28, 2008. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Clay County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, the Clay County Fiscal Court, and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 28, 2008

